

Message Text

LIMITED OFFICIAL USE

PAGE 01 ABU DH 01783 141242Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-07 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 NEAE-00
/097 W

-----141247Z 062165 /45

P R 141225Z JUN 77
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC PRIORITY 6230
INFO USDOC WASHDC
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
AMEMBASSY TEHRAN

LIMITED OFFICIAL USE ABU DHABI 1783

E.O. 11652: N/A
TAGS : EGEN, ECON, EFIN, TC
SUBJECT : UAE PRESIDENT OVERRULES CURRENCY BOARD AND UNSQUEEZES
CREDIT

REFS: (A) AD 1558, (B) AD 1665

1. SUMMARY: UAE PRESIDENT SHAIKH ZAYID HAS OVERTURNED TWO NEW
CURRENCY BOARD CREDIT RESTRICTIONS. IF IMPLEMENTED, THESE
WOULD HAVE SERIOUSLY HAMPERED PACE OF ECONOMIC ACTIVITIES.
GOVERNMENT POLICIES FOR BANKING SECTOR ACTIVITIES STILL
NEED TO BE DEFINED. END SUMMARY.

2. IN CONTINUATION OF PENDULUM-LIKE UAE BANKING SECTOR DECISIONS,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ABU DH 01783 141242Z

PRESIDENT SHAIKH ZAYID ANNOUNCED JUNE 13 THAT TWO
SIGNIFICANT CREDIT RESTRICTIONS ADOPTED FOUR
DAYS AGO AS PART OF THE CREDIT SQUEEZE INITIATED BY
NEW LOCALLY HEADED CURRENCY BOARD (REF A) ARE TO BE DROPPED
EFFECTIVE JUNE 14. THESE MEASURES REQUIRED IMPORTERS TO MAKE
A NON-INTEREST BEARING CASH DEPOSIT OF 25 PER
CENT ON NEW LETTERS OF CREDIT AND CALLED FOR PAYMENT

OF NON-INTEREST BEARING CASH DEPOSITS OF 10 PER CENT OF THE TOTAL OF BANK GUARANTEES FOR BID, PERFORMANCE AND ADVANCE PAYMENT ON CONTRACTS. IN BOTH INSTANCES, BANKS WERE FORBIDDEN TO LOAN CLIENTS MONEY IN ORDER TO MAKE THESE CASH DEPOSITS. HOWEVER, RECENT REQUIREMENT THAT COMMERCIAL BANKS INCREASE THEIR DEPOSITS FOR FOREIGN EXCHANGE WITH THE CURRENCY BOARD FROM 1 PER CENT TO 5 PER CENT REMAINS IN FORCE. THIS REQUIREMENT IS TO BECOME EFFECTIVE ON JULY 1.

3. ROLL BACK OF THESE RESTRICTIONS IS JUSTIFIED BY LOCAL PRESS, BANKERS AND BUSINESSMEN AS STATEMAN-LIKE ACT NEEDED TO STIMULATE AND ENCOURAGE PRIVATE ECONOMIC AND TRADE ACTIVITIES. CERTAINLY, IN A COUNTRY WHICH IMPORTS PRACTICALLY EVERYTHING AND WHOSE CONSTRUCTION INDUSTRY IS ALREADY ON THE ROPES (REF B), ALMOST INSTANT EFFECT OF THESE MEASURES WOULD HAVE TO PUT BUSINESS ACTIVITY INTO A REAL NOSE DIVE.

4. LOCAL CITIZENRY UNIFORMLY BLAME CONFUSED SITUATION ON PREVIOUS CURRENCY BOARD MANAGEMENT AND POLICIES. SCAPEGOATING HAS CENTERED ON RON SCOTT, FORMER GM OF BOARD WHO, ACCORDING TO WELL INFORMED SOURCES, HAS LEFT CURRENCY BOARD ENTIRELY (GIVING UP ADVISORY ROLE) AND, IN CARTOON ON FRONT PAGE OF JUNE 14 AL WAHDA DAILY NEWSPAPER IS SHOWN WITH BAGS PACKED "FLEEING THE COUNTRY" ABOARD AIRPLANE.

5. COMMENT: NEW, INEXPERIENCED CURRENCY BOARD MANAGEMENT IMPOSED OVERNIGHT DRACONIAN SQUEEZE ON CREDIT. HAD THESE RESTRICTIONS REMAINED IN EFFECT, RESULT SURELY LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ABU DH 01783 141242Z

WOULD HAVE BEEN QUICKLY TO USHER IN ERA OF BANKRUPTCIES, FORECLOSURES, AND CONSIDERABLE ILL-WILL IN MASS. FACT THAT LOCAL MERCHANTS AND BUSINESSMEN GOT SHAIKH ZAYID TO OVERTURN BOARD DECISION SO QUICKLY MEANS THAT THEY WILL NOT BE FINANCIALLY SQUEEZED RIGHT NOW. HOWEVER, FEAR OF OVER-EXTENSION AND COLLAPSE IN BANKING SECTOR WHICH LED TO INITIATION OF CREDIT SQUEEZE STILL EXIST AND WE STILL EXPECT SHAPING UP OF BANKING SECTOR TO CONTINUE, ALTHOUGH IN MODERATED FORM. LESSON TO BE LEARNED IS THAT LOCAL POLITICAL AND BUSINESS COST OF ACHIEVING BANKING SECTOR NORMALITY MUST NOT BE TOO HIGH OR PRECIPITATELY DEMANDED. FOR ZAYID SIMULTANEOUSLY TO PLACATE HIGH PROFIT EXPECTATIONS OF LOCALS AND TO COMPLY WITH BANKING SECTOR RATIONALITY WILL BE DIFFICULT TEST. HIS SOLOMON-LIKE REPUTATION AND PERHAPS HIS EQUALLY FABLED WEALTH MAY WELL BOTH BE CALLED INTO ACTION.
DICKMAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, POLICIES, LOANS
Control Number: n/a
Copy: SINGLE
Sent Date: 14-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ABUDH01783
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770211-1151
Format: TEL
From: ABU DHABI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770661/aaaacbvf.tel
Line Count: 114
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e7b0c97d-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 04-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2168885
Secure: OPEN
Status: NATIVE
Subject: UAE PRESIDENT OVERRULES CURRENCY BOARD AND UNSQUEEZES CREDIT
TAGS: EGEN, ECON, EFIN, TC
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e7b0c97d-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009